WORKING CAPITAL MANAGEMENT PRACTICES AND THE FINANCIAL PERFORMANCE OF PRIVATE PRIMARY SCHOOLS IN KISUMU CITY,KENYA

BY

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A RESEARCH PROJECT PRESENTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI.

DECLARATION

I hereby declare that this research project is my original work and has in no way been submitted for the award of any degree or in any other case in any University.

Signature é é é é é é é é é é é é Dateé é é é é é é é é é é é é é

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Declaration by the university supervisor

This research project has been submitted for examination with my approval as University supervisor.

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First of all, I would like to thank the omnipotent lord for providing for me the strength, favour, security what's more grace to get through this undertaking. Secondly, with profoundly thanks to my supervisor Dr. Joshua wanjare for as much guidance, correction, criticisms, consolation what's more help. Without as much support, this research project won't have been achievement.

Lastly, I wish with thank my crew, and companions for nonstop prayers, encouragement and enduring help for the period writing the research project.

DEDICATION

This research project is dedicated to all Master of Business Administration (Finance option) students of the academic year 2018/2019 with gratitude and affection

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ABBREVIATIONS AND ACRONYMS

ACP: Average Collection Period

APP: Average Payment Period

CCC: Cash conversion cycle

CM: Cash Management

ICP: Inventory Conversion Cycle

ITP: Inventory Turnover Period

KPSSP: Kenya private schools support programme

PPS: Private primary schools

ROA: Return on assets

SPSS: Statistical Package for Social Sciences

VIF: Value inflation factor

WCM: Working capital management

ABSTRACT

The management of day to day operations of an institution is a very critical area in the operations of any institution and entails decisions and the valuation of operating assets and financing the said assets. This is critical to the lengthy survival of institutions due to the fact it affects the institutions liquidity and the potential to meet its maturing obligations. The objective of private sector institution such as private primary schools is to maximize shareholders wealth which entails ascertaining the level of equilibrium in terms of performance, solvency, liquidity and potency. Most educational institutions are afflicted by poor financial performance due to their unique approach to the management of working capital which involves more of accounts payables and receivables than any other working capital management practices. The primary purpose of the study was establishing the influence of working capital management practices and the financial performance of private primary schools in Kisumu city, Kenya. Working capital management was operationalized through accounts receivable management, debts payable management, cash management and inventory management. The research was anchored on three main theories of financial management practices namely; risk trade-off theory, operational cycle theory and transactional cost theory.The population of the study comprised all the 57 private primary schools in Kisumu City that were in operation between 2016 and 2018. Study data was secondary in nature and was obtained from the statements of finances; statement of income, statements of balance sheet and statement of cash flow that cover a period of three years between 2016 and 2018. Validity of data collection instruments was ascertained through a pilot study of the document anaylsis checklist. Alpha Coefficient of reliability was computed.survey findings revealed a considerable relationship between accounts receivable management and financial overall performance of private secondary schools in Kisumu City ($r = 0.703$; $P < 0.05$). A significant relationship was revealed between accounts payable management and financial performance of private primary schools in Kisumu city ($r = 0.674$; $P <0.05$). Cash management practices had a significant association with financial performance of private primary schools in Kisumu city ($r = 0.509$; $P<0.05$) while inventory management had a weak but positive association with financial performance of private primary schools in Kisumu city ($r = 0.245$;$P>0.05$). Based on the study findings reveal that, organizations that analyze their financial performance gain and retain competitive advantage in the market place. This is because through such an analysis of financial performance, private primary schools in Kisumu city identify opportunities that improve their overall organizational performance. It is recommended based on the study findings that private primary schools in Kisumu City should come up with policies for prudent financial management practices through budgets and strict adherence to laid down procedures in financial transactions to reduce losses and maximize return on investment.

CHAPTER ONE :INTRODUCTION

1.1 Background of the Study

The objective of working capital management is to ensure firms continues to operate in perpetuity and have adequate cashflow to manage both current and long term debt obligations. The management of day to day operations of an institution is a very critical area (Joshi, 1994), Daily operations are about decisions and the valuation of these operating assets not forgetting financing the said assets, this is critical because it affects the institutions liquidity and the ability to meet its maturing obligations (Smith, 1980)

The objective of private sector institution is to maximize shareholders wealth which entails ascertaining the level of equilibrium in terms of performance, solvency,liquidity and potency Brigham &Ehrhard (2004). The overriding objective in management of current assets and liabilities is to ensure efficiency as much as possible, this is achieved by minimization of unnecessary operating assets and maximization of inexpensive short-term financing, the management of operating assets and short-term finances is commonly known as the working capital management or short-term financial management (Smith, 1980).

The research was underpinned by three main theories namely; risk trade-off theory, operational cycle theory and transactional cost theory. Risk trade-off theory was advanced by Smith (1980), the theory postulates that it is impossible for a firm to give a clear estimate of working capital, hence a firm must be able to choose stages of output. Pandey (2011) demonstrates that a firm mode of operation policy, income and request conditions, and operating efficiency, its quick assets relies on its working capital arrangement which might take after preservationist or forceful strategy and these strategies include hazard and profit trade-offs.. Cash operating theory explains

how to find out the time frame of a firm's operation,basing on the number of days per stock invested and accounts receivable Park and Gladson (1963). Transactions costs theory studies the actual costs accounting for provision of goods and services and it accounts for all the costs involved namely, coordination costs, transaction costs, search costs and contracting costs. Inclusion of all these costs are considered for complete decision making and not just the pricing of the school term fees but its actual wellbeing (Williamson,1996). Transaction theory is about the basic theoretical framework that analyses relationship between primary private schools and its students, the theory studies the two sides of the transaction processes, one is about where the transaction starts up to where it ends, it also focuses on reviewing on where the transaction starts and also explains the transaction costs that result to an institutions in managing its economic activities (Williamson, 1996).

Therefore, for private primary schools to survive and receive high returns on investment there is a need to ensure working capital is maintained. The researcher was interested in identifying how the adopted policies of this institutions affect their performance. This research aimed at addressing the working capital management practices that private primary schools need to operationalize so as to meet their financing needs. In doing so it was of great importance to private primary schools in efficiently and effectively financing their operating activities hence maintaining a competitive advantage and addressing challenges faced by this institutions

1.1.1 Working Capital Management

Working capital management (WCM) entails controlling adequately and effectively the current liquid assets and current obligations of a firm so as to realize good returns and also minimizes installments to its liabilities. (Pandey2008). WCM aims at ensuring a firm meets its current and future obligations when they fall due and

maintaining the optimum balance between each variables of WCM; accounts receivables, accounts payable, cash management and levels of inventory. The need to maintain effective WCM within Private primary schools remains vital to solvency and liquidity of PPSs (Peterson, 2012).

Effective WCM involves incorporating methods that helps alleviate risk and non repayment of short-term obligations on one side and preventing making more investments in assets on the other side but putting up measures of controls of current assets and liabilities (Lazaridis&Tryfonidis, 2006). Sonia (2009) suggests that WCM accounts for most of the failure in private primary schools. A big number of private primary schools do not operationalize their WC so as to enjoy maximum profit (Geoffrey, 1969). Most of them do not mind about their financial position but only operate their institutions focusing more on cash receipts and bank balances (Sunday, 2011).

This study evaluated various WCM practices and their effective application by private primary schools; for instance, the combination of accountsôpayable management, cash management, creditors management and inventoty management in normal operations and management of these institutions. Chemis (2015) indicated some link between an entreprise WCM and profitability not solely in the short run but also long run that have an impact on the growth and sustainability of an institution. Better management of WC is believed to make contributions to the firm through ways like better and shorter collection periods, better credit policies, favorable turnover ratios among others.

1.1.2 Financial Performance

Financial performance entails identifying operatinal and financial status of an organization statements of accounts (pandey, 2008). The motive of this financial analysis was to ascertain the performance and efficiency of this financial institution. The analyst measured the organization liquidity, profitability and other indicators that the organization runs in a rational way, maximizing shareholders wealth to retain competitive advantage.

An organization that analyzes its financial performance remains key for maintaining its competitive advantage in the market place. Through this analysis of its financial performance, its able to identify opportunities that improve the performance at organizational level.The researcher analyzed the financial performance of private primary schools to ascertain how working capital management practices influences growth. Institutions hold cash resources for transaction motives, for example, running day to day business, precautionary motives also provides a solution to allay some unexpected emergencies, speculative motives for investments in profit-making opportunities and assets (Pandey, 2008), therefore, institutions should establish policies for cash flows and plan the same cash flows, through budgets, making good use of bank overdraft, deposit accounts and time transactions to the best of cash flow effects, an attempt to accelerate collections and slow up disbursement should be made so that maximum cash is available (Obulemire, 2006).

Our study was based on Return on Assets (ROA) as a measurement for the performance of PPSs as used by other scholars like Wanjiku (2013), Wambugu (2011), and Sadiq (2017). ROA puts into consideration the assets used to operationalize the business activities while determining whether the instituition is able to generate returns on the assets rather than displaying better returns on what they

offer. The use of ROA as a meaure helps the management to understand the assets required to keep the business going. In a sense you can think of ROA as an indicator of how efficient an institution is making profit..

1.1.3 Working Capital Management and Performance

Financing operating assets involves decisions on trade-offs between risk and liquidity. The larger the size of liquid assets, the less likelihood of an institution running out of cash, effective management of various components of operating assets, effective credit and collection procedures and inventory control have a bearing on the liquidity of a firm, all firms require operating capital, only differing in composition of the components and the controls and policies implemented. There is no universally accepted strategy for financing operating capital; however, there are principles that address short term financing policies (Smith, 1980).

Operating efficiencies lead to the optimal utilization of the organization's resources. Written policies relating to working capital management components improve efficiency, proper and up to date recording of the working capital components requires adequate and competent staff who can prepare reports to management for planning and decision making, preparation of all functional and master budgets enables an organization to chart its way forward and also to identify areas that need attention in advance (Deloof, 2003)

The cash receipts and payment patterns also affect the working capital requirement of institutions, if not properly synchronized, the institutions can experience cash deficits which affect their day to day operations. The rising prices mean that a higher amount of working capital will be needed (Smith, 1980).

Management of short-term financial management is moderately applied in private primary schools, even though each component has some form of control, there are

inefficiencies in the management of the accounts receivables in form of fees compared to management of inventory, cash or accounts payables. Planning aspect for the working capital components is not adequate except the cash component, receivables and payables are well synchronized and it manifests themselves in operating inefficiencies (Kungu & Kimani, 2014).

Short-term financial management in private primary schools should not be disregarded.Each working capital component should not only have written policies, but such policies should be strictly followed and reviewed where necessary to incorporate the changing trends. Proper management of short-term financial management should bring an improvement on operating efficiencies. This can only be achieved where up to date records that relates working capital components, planning of cash flows that improves cash and maintains optimal levels of each short-term financial management component (Mulera, 2005).

Institutions have an obligation to bring on board competent staff who are able to keep records that will aid the management in decision making and in relation to operating assets and short term financing.systems should be incorporated that help in budgetary controls,computerized accounting that are programmed to guide cash receipts,fees payment,accounts payable and cash budget (Obulemire, 2006).

Deloof (2003) held that an institution with larger revenues and having credit policy which is not stringent results in having longer and larger conversion cycles, the longer and larger conversion cycle leads to lower revenues, the relationship between longer and larger conversion cycles and liquidity is that it has no impact on the liquidity of a company if all other factors are held constant (Reheman and Nasir, 2007).

1.1.4 Private Schools in Kisumu City

Kisumu has 57 private primary schools spread across Kisumu city. These institutions serve both local and international students who are in search of education. Education is a key segment in kenyan economy,this has led to vision 2030 blue print experts on realizing the need for education sector to grow to achieve these objectives over a period of time.To realize this dream there must be growth in education infrastructure and proper funding of education system,which will depend on the variables that affect education development of the institutions (Gok,2012).

Operationalization of this private schools are affected by inefficiencies in short-term financial management of receivables in form of fees,inventory management, cash and accounts payables. Efficiency in WCM of these institutions largely depends on quantitative data which must be accurate and timely in order to aid in proper decision making (Mc lonely, 2000).

A good number of these institutions have working capital practices, but most of the policies are not strictly followed, the policies should be sychronised to incorporate the changing trends. Bearing in mind how private primary schools contributes to Kenyan economy and the risks they are exposed to in their location.

1.2 Research Problem

When managing liquidity is critical for all businesses, if liquidity is not well managed, it leads to shortages of cash and the resultant problems of not meeting day to day obligations. Working capital shortages has generally been the biggest cause of failures of institutions in many countries (Rafuse, 1996). Short-term financial management in institutions is critical as its affects their profitability and risks, and in the end their value (Smith, 1980). Investments in short-term assets represent a very significant

position of total assets, additionally, there is risk-return trade off; in that the optimal level calls for a balance between profitability and solvency by reducing the costs associated with liquidity, the working capital managementós objectives being enhancing profitability and liquidity (Pandey, 2008).

The urge in management of working capital of private schools adequately and efficiently viable and continuity in view is what makes the study to base on. In Kenya, many private primary schools are struggling to thrive and run their day to day operations effectively, Many donôt practice working management practices which are critical for better performance (kungu, 2014).The unsecured nature of accounts receivables in the majority of private primary school in Kisumu city exposes them to delinquency risks of slow fee payment and defaults. The costs associated with receivables are not trivial. First, there is the chance that the client will not pay the arrears, secondly, the organization has to bear with the cost of carrying receivables (Ross, 2003). Slow fee payments and debt defaults, in turn, are likely to expose the schools to financial performance problems which would, in turn, affect the quality of education they offer.The challenges to be addressed by primary private schools include; inadequate facilities for teaching and other resources, mismanagement of scarce resources, wastefulness and unnecessary competition, many heads of institutions lack capacity to oversee and account for utilization of resources, and most finance officers not being in control of the finances of their institutions (Kungu & Kimani, 2014).)

Globally, more emphasis has been placed on accounting ratios as part of working capital management studies, but very few of them have researched on the working capital specifics. Johnson (1970) did his research by examining the cross-sectional stability of ratio groups for manufacturersWorking capitall management is a very

critical aspect in any institution, and in the end many organizations are unable to get their basic working capital needs.

For local studies in Kenya on working capital management Ngaba (1990) did his study of Kenyan secondary schools, the conclusion of the findings was that many school lacked professionalism in managing their finances. Nyakundi (2003) studied short-term financial management policies on listed companies in Kenya, his findings held that no relationship existed among WCM and profitability in these companies. Kithii (2008) did his studies on companies listed in the NSE, the findings significantly showed no association of profitability and cash conversion cycle.

The research on the impact of working capital management and financial performance has not brought about conclusive results. Due to the information gap and a lot of misundertandings on various studies that have been studied in the area, itôs of great importantance if the researcher in this study brings out clearly influence that WCM has on profitability of private primary schools in kisumu. The research tends to cram the gap by establishing WCM practices and profitability of PPS in Kisumu City.

The following research question was answered by the study: is there any relationship between working capital management practices and the financial performance of private primary schools in kisumu city,kenya

1.3 Research Objectives.

The study aimed at establishing the effects of working capital management practices and the financial performance of private primary schools in Kisumu city,Kenya.

1.4 Value of the Study

Other scholars and academicians would validate the empirical findings of the study and use it as reference material. They may also research the recommended area for

further study. Finally, the private institutions, especially in Kisumu County, will use the study findings and recommendations to better their operational performances as a result of adopting working capital management practices.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature that is in existence regarding WCM and private primary schools profitability. It also presents an overview of prior work on related thematic area that provided necessary background for the purpoe of the research. The chapter specifically examines the literature concerning the influence of working capital management and performance, relationship between WCM practices and the performance of private primary schools in Kisumu city. This chapter ends by discussing in summary the knowledge gaps the research aims to fill.

2.2 Theoretical Review

This research was guided by three main theories which are the most quoted to explain the phenomenon, they include risk trade-off theory,transaction cost theory, and operating cycle theory.

2.2.1 Risk Trade-off Theory

The theory was advanced by smith (1980) which focuses on the liquidity-solvency and profitability trade-offs of an organization. Risk trade-off theory postulates that it is impossible for a firm to give a clear estimate of working capital, hence a firm must be able to choose what kind of levels of current output to be carried out. Pandey (2011) indicates that a firm mode of operation policy, efficiency in operation and its quick assets holdings depends blue print which may follow conservative or aggressive policy and these policies involve risk and return trade-offs.

Trade off theory was advanced to show that bigger institutions are not likely to fail due to diversification hence reduction of risks on their programs and services, as their main objective is managing their liquidity, and in case of higher institutions of learning have

wider sources of funds. large institutions can source large inventories on credit and delay in payment of their suppliers (Dash & Ravipati, 2009).Therefore, trade-off between profitability and risk is an important element in terms of evaluation of levels of WCM of an institution. Relationship between liquidity and solvency is inverse and the main findings as put forward by Eljelly (2004) found out that proper management of liquidity is to plan and control short term obligations in a way that reduces most of financial risks and avoiding unnecessary investment in the assets.This theory is of benefit in this study because it helped the researcher to understand that while the immediate survival of private primary schools in Kisumu city anchors on liquidity, for its long term existence, growth depends on performance.

2.2.2 Operation Cycle Theory

The theory was advanced by park and Gladson (1963). The theory states that liquidity is based on the measure of operating activities of the institution and has been of the view that organizations should incorporate elements like creditors and debtors into the operation cycle to enhance liquidity management. (Weston & Eugene, 1979), affirms that since money elements are not instant, Private primary school's policy on credit poses a great impact on the debtors' balances concerning performance.

In short-term financial management, giving the students relaxed credit policies makes institutions revenues to decrease in the short term but the liquidity will be increased in the long run. When this analysis is applied to current asset accounts components, the theory may not depict the true picture as it asserts that current liabilities have no importance in operations of this institutions. (Richards & Laughlin, 1999) in their findings on operation cycle theory on working capital management of afirm postulates that, the use of accounts payables to finance the firmôs activities cannot be ignored. Best debt policies expand the consumer base at the same time reducing the liquidity of

the debt hence this theory remains vital in operations of primary private schools in Kisumu city

2.2.3 Transaction Cost Theory

The theory was advanced by Williamson (1975), he affirms that transactions influence consumer behavior with the daily operations within an institution. The theory states that individuals, organizations, etc. incur costs in the course of doing business transactions without their knowledge. Williamson (1975) referred to this cost as a transaction cost. Transaction theory is about the basic theoretical framework that analyses relationship between private primary schools and its students, the theory studies the two sides of the transaction processes, one is about where the transaction starts up to where it ends, it also focuses on reviewing on where the transaction starts and also explains the transaction costs that result to an institutions in managing its economic activities (Williamson, 1996).

The whole process of information provision is to adequately meet stakeholderôs need for more information in decision making (Mian& Smith, 1992). The strategies institutions use is to scale down on the transaction costs, this enables the institutions to have strategies whose benefits are believed to be more than the costs, for example in management of inventories, institutions are keen to minimize holding and ordering costs, in accounts payable institutions will use cheaper credit, it means institutions invest where there are bigger marginal returns, this implies less working capital investments and the lower the transaction costs the better the returns and liquidity (Howorth& Westhead, 2013). This means that this theory was appropriate since it will aid the private primary schools who incur a lot of costs unknowingly to eliminate extra costs brought about by the institution's business transactions.

2.3 Review of Empirical Studies

An ideal short-term financial management focuses on contributing favorably to the institutions' value, and arriving at the ideal working capital, managers should ensure the trade-off between liquidity (meeting current dues) and performance is good at all times. Ganesan (2007) in his study revealed that dayós working capital inefficiencies negatively affected the firms' profitability in the short run, but was not significant enough to negatively affect the firms' profitability.

Ngaba (1990) did his research on working capital management in Kenyan secondary schools using a case study of Kikuyu Sub County. Data collected by use of questionnaire and the conclusions showed the existence of the cash budget in these schools. The major source of cash was fees and cash collections were banked daily. In receivables management, to remind students of overdue debts, reminder letters were sent to their parents and guardians urging them to clear their debts. The findings revealed a lack of professionalism in the management of school funds. It also recommended that competent personnel to manage school finances

Simiyu, (2007) in his study of Kenyan universities concluded that they hugely depended on national government funding for most of their budgets. The institutions also receive funds for their activities and research externally; there has been a lot of pressure on these training institutions in the region to reduce their budgets and programs due to a decline in government funding. The institutions are dealing with this by instituting a broad array of activities that enable them to get extra resources to boost the little resources received from the exchequer.

Obulemire, (2006) examined the budgeting in secondary schools noted that the size in terms of the student population did not affect the occurrence of deficit or surplus in the school operations. He noted that the number of students in schools was mostly

considered as the key budget factor and most schools had no plans to lead them towards the attainment of their objectives, he found that finance officers were not qualified to hold their positions in schools because they lacked knowledge concerning idle funds, cost, and cash balances.Hence, in a nutshell to create shareholders value, the management should carefully shorten CCC till the accomplished level. These studies concur with those of Teruel and Solano (2007) who further stated that firms shall be more worried about Working Capital Management as it can help, through reducing the CCC to its minimum level. Mathuva (2010) also made the same findings of a negative correlation further stating that the negativity could be because minimizing the investment in currents assets can boost the profits for the firm. He concluded that this would ensure that liquid cash is not maintained in the business for too long and is used to generate profits. Williamson (1996) studied ways, in which short-term financial management is managed, this is because of the great consequences it has on the solvency of any institution, his study was supported by other studies such as (Obulemire, 2006), the study showed that certain Levels of working capital requirements are potentially profit-maximizing, other studies showed working capital management impacts on day to day activities of institutions and are geared to increase their liquidity

2.4 Summary of Literature Review

Williamson (1996) studied ways, in which short-term financial management is managed, this is because of the great consequences it has on the solvency of any institution, his study was supported by other studies such as (Obulemire, 2006), the study showed that certain Levels of working capital requirements are potentially profit-maximizing, other studies showed working capital management impacts on day

to day activities of institutions and are geared to increase their liquidit. His study noted that many institutions have varying needs of working capital as many will maintain a certain level of working capital to enable them to meet their day to day requirements.

Zariyawati et al (2009) in his survey regarding relationship between CCC and profitability sampled 1625 firms for the period of four years between 1996-2006 in manufacturing companies in malasyia.The findings provided revealed no relationship of any magnitude existed. Thus it would be difficult to assume they also depict similar results compared to private primary schools.

Thus, the present study sought to stuff the gap and explore the effects of working capital management and profitability of private primary schools in Kisumu city.

2.5 Conceptual framework

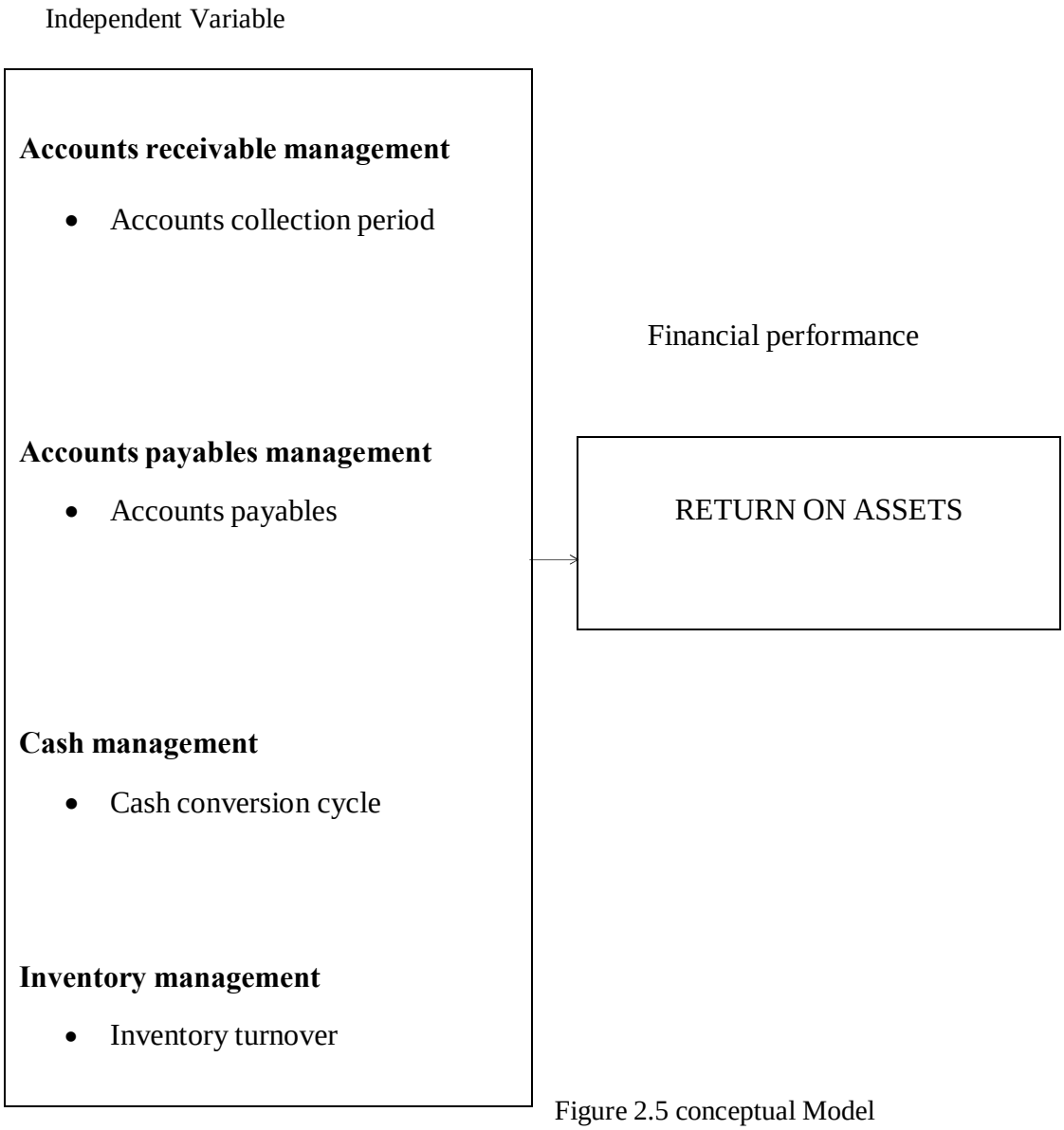

Figure 2.5 conceptual Model

CHAPTER THREE:METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used in the study.it entails research design, target population, sample and sample design,data collection procedures,data analysis and presentation of the findings.

3.2 Research Design

The research used longitudinal descriptive research design, the reason being that both the researcher conducted several observations of the same subject over aperiod of time sometimes lasting many years.

3.3 Target Population

A target population a group of the population that share comparable characteristics and is recognized as the intended audience for a product, refference or research. (cooper and schindler,2013) .The population of interest in this study was all private primary schools operating within Kisumu city, for a duration of three years from 2016 to 2018, this gives an entire population of 57 private primary schools.This number was obtained from the ministry of education database Kisumu county (Gok,2014)

3.4 Sample Design

The study was based on financial reports and statements of private primary schools in Kisumu city for a period of three years and especially those that have been on operations since 2016 ï 2018. The study was a census survey, in which all the Private Primary schools in Kisumu city were studied, any new private school during the period

of study was not incorporated in the sample due to the unavailability of past historical data.

3.5 Data Collection

The researcher point of focus was on the secondary data which was gotten from the statement of finances ; statementof income ,statements of balance sheet and statement of cash flow that covers a period of three years obtained from private primary schools.This helped the researcher to accurately measure the effect of working capital management practices advanced by these institutions.

3.6 Data Analysis

This is a procedure of checking, remodeling and modeling facts with the intention of discovering beneficial information, informing conclusion and aiding decision-making in phrases of the respondents definition using patterns,themes and categories (Gay,1992).The data for this study was therefore scruitinized through descriptive and inferential statistics.Tabulation, graphical presentations were used to present results so as to give a clear picture and understanding as well as analysis. (SPSS),version 20 software was also used to analyse data using reliable statistical calculations and the interpretation done with the aid from university of Nairobi ICT personnel.

Multiple regression was used to analyze data to ascertain the effects of working capital management practices variables on the private primary schools' financial performance, it took the following equation.

$$Yit = ϐO + ϐ1\ ACPit + ϐ2\ APPit + ϐ3\ CMPit + ϐ4\ ITPit + Ů$$

Where:

Y: Returns on Assets (ROA) to measure of private primary schools performance

Yit: Are the Returns on assets of private schools i at time t (i=1, 2 é .57 private primary schools).

β0, 1.... 3: representation of constracts the direction to which each variable influences financial performance of the private primary schools.

ACP: The average collection period demands

APP: The average payment period

CM: Cash management proxy measured by cash conversion cycle

ITP: The inventory turnover period

ε: The error term

Xit: The various independent variables of private primary schools áôat timeáô

t: Is the Time = 1, 2 é é 3 years

To complete the regression analysis,WCM practices were analyzed using correlation analysis and primary private schools' financial performance. Test of significance was done on the variables using t-test at a 95% level of significance.

CHAPTER FOUR : DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter contains details of statistical analysis, presentation and discussion. Data presentation is organized from 4.2 to 4.4 based on the objective of the study.

4.2 Response Rate and Characteristics of the Respondents.

The study purposed to analyse financial reports in 57 private primary schools that were operational during the 3 year period between 2016 and 2018. Out of the 57 tageted private primary school, 47 took part in the study providing a response rate of 82.45%. According to Creswell (2014),over 82% reponse rate is great merit for purposes of putting together all findings from the sample onto the entire population from which the sample was drawn.

4.3 Descriptive Statistics on Working Capital Management Practices

The analysis produces descriptive statistics which highlight the means of the study variables relating to financial management practices. The institutions had an average accounts receivable management of 47 days, while the average accounts payable mnament of 51. The cash management was on average 45 days with the inventory management being 41.

Table 4.1: Descriptive Statistics for Financial Management Practices.

	ROA	ARM	APM	CM	IM
N57	47	47	47	47	47
Mean	.3768	13.185375	118.677025	156.346916	50.8552
Std. Deviation	.2158016	16 .3320615	67.0857684	88.8318474	136.1477
Minimum	.06	.0000	.0000	.0000	-149.0417
Maximum	.8335.0400	35.0400	238.5640	365.0000	365.0000

Table 4.1 above shows that the average Return on Assets for the observation sampled from 57 Private primary schools 37.68% with a standard deviation of 0.216 varying from a range of .6% to a maximum ROA of 83%. The Average Collection Period is about 13 days (Std. Deviation Almost 16 days) with maximum collection of 35 days and minimum of less than 1day.

The Average Payment Period is almost 119 days (Std. Deviationalmost 67days) with maximum supplier payment of 239 days and minimum of 0 days. The average age of inventory is almost 156 days (Std. Deviation Almost 89days) with maximum stock holding of 365 days and minimum of less than a day.

4.4 Inferential statistics

Table 4.2 Pearson Product Moment Correlation coefficient for the Study Constructs

	ARM	APM	CM	IM	FINANCIAL PERFORMANCE
ARM	1				
APM	.651**	1			
CM	.539**	.517**	1		
IM	.422	.563**	.461	1	
FINANCIAL PERFORMANCE	.703**	.674**	.509**	.245	1

Study findings in table 4.4 present Pearson correlation for the influence of WCM practices on financial performance of PPS in Kisumu city. Study findings reveal a significant rrelationship between Accounts receivable management and financial performance of private secondary schools in Kisumu City ($r = 0.703$; $P< 0.05$). A statistically significant relationship was revealed between accounts payable management and financial performance of private primary schools in kisumu city ($r = 0.674$; $P < 0.05$). Cash management had a significant relationship with profitability of private primary schools in Kisumu city ($r = 0.509$; $P < 0.05$) while inventory management had a weak but positive relationship with financial performance ($r = 0.245$;$P>0.05$).

4.5 Degree of Accounts Receivable Management on Financial Performance

The results for regression analysis with accounts receivable management as a preditor of financial performance in private primary schools in kisumu city as shown in table 4.5.

Table 4.3: Summary for Accounts Receivable Management and Financial Perfformance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.442[a]	.195	.192	.81742	1.720

a.(Constant), Accounts receivable Management

b. Financial Performance

Source: Research Data (2019)

From table 4.5, the value of R squared was 0.195 this show that accounts receivable management explains 19.4 % of variation in financial performance of private primary schools in Kisumu city.

4.5.1 ANOVA Results for Accounts Receivable Management and Financial Performance.

ANOVA for the linear model was performed to determine best of fit for the model used in the research.

Table 4.4: ANOVA Results for Accounts Receivable Management and Financial Performance.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	48.089	1	48.089	71.972	.000[a]
	Residual	198.447	297	.668		
	Total	246.536	298			

a. Predictors: (Constant), Accounts receivable Management

b. Dependent Variable: Financial Performance

Source: Research Data (2019)

Analysis of variance for the linear model given in table 4.6 of accounts receivable management and financial performance shows F value of 71.792 that is significant at 99% confidence level with a P value = 0.000 this means model is significant in the prediction of financial performance of private primary schools in Kisumu city.

4.5.2: Coefficients for Accounts Receivable Management

The Coefficients for accounts receivable management as a predictor of profitability of private primary schools were computed to establish the degree and direction of association and as captured in table 4.7:

Table 4.5: Coefficient for Accounts Receivable Management and Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	.748	.124		6.019	.000		
	ARM	.496	.058	.442	8.484	.000	1.000	1.000

Source: Research Data (2019)

The VIF value in the above table is less than 10 so hence no multicollinearity problem. Regression analysis model coefficients shows there is a beta co-efficient of 0.496 for accounts receivable management with a P value = 0.000 that is less than 0.05 thus a positive and significant relationship. The equation is presented as shown below:

Y = 0.748 + 0.496 ARM: Where :

Y =Financial Performance

ARM is accounts receivable management.

4.6 Effect of Accounts Payable Management on Financial Performance

The results for regression analysis with accounts payable management as a preditor of financial performance of private primary schools in kisumu city are presented in table 4.6.

4.6.1 Regression Analysis between Accounts Payable and Financial Performance

Study data relating to accounts payable was subjected to regression analysis to predict performance of private primary schools in Kisumu City and findings given in table 4.8.

Table 4.6:Summary model for Accounts Payable Management and Profitability.

Model	R	R Square	Adjusted RSquare	Std. Error of the Estimate	Durbin-Watson
1	.323[a]	.165	.159	.86210	1.842

Source: Resarch Data (2019)

The value R squared was 0.165 which indicates accounts payable explaining 16.5% variation in financial performance of private primary schools in Kisumu city.

4.6.2 ANOVA Results for Accounts Payable Management and Financial Performance.

ANOVA for the linear model was performed to determine the best of fit for the model used in the study. Findings are presented is presented in Table 4.9.

Table 4.7: ANOVA Results for Accounts Payable and Financial Peformance.

Model	Sum of Squares	Df	Mean Square	F	Sig.

1	Regression	25.799	1	25.799	34.712	.000[a]
	Residual	220.737	297	.743		
	Total	246.536	298			

a. Predictors: (Constant), Accounts Payable Management

b. Dependent Variable: Financial Performance

Source: Resarch Data (2019)

F - value = 34.712 meaning is significant at 99% confidence level with p value = 0.000 which means, the overall model is significant in the prediction of financial performance of private primary schools. The study therefore shows that accounts payable significantly influence financial performance of private primary schools in Kisumu city.

4.6.3: Coefficients Results for Accounts Payable and Financial Performance.

The Coefficients for accounts payable as a predictor of financial performance were computed to determine the degree and direction of association and findings are captured in table 4.10:

Table 4.8: Coefficients for Accounts Payable and Financial Performance.

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	T	Sig.	Tolerance	VIF

(Constant)	3.224	.260		12.420	.000		
APM	.381	.065	.323	-5.892	.000	1.000	1.000

a: Dependent Variable: Financial Performance.

Source: Research Data (2019)

The , accounts payable contribute significantly to the model. The equation is presented as follows:

Y = 3.224 + 0.381AT + Ų Where Y =Financial peformance,

APM is Accounts payable Management

And Ůis the error term

The above equation shows that a unit change in accounts payable management results in 0.381 unit changes in financial performance of private primary schools in kisuku city when holding all other factors constant.

4.7 Cash Management and Financial Performance.

The results for regression analysis with cash management as a predictor of financial performance are presented in table 4.11

Table 4.9:Model Summary for Cash Management Practices and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.472[a]	.287	.283	.81742	1.684

a: Predictors: (Constant), Cash Management Practices

b: Dependent Variable: Financial Performance

Source: Research Data (2019).

From table 4.11, the value of R squared was 0.287 which implies that cash management practices explains 28.7 % of the variance in financial performance in private primary schools in Kisumu city.

4.7.1 ANOVA Results for Cash Management and Financial Peformance.

ANOVA for the linear model was performed so as determine the best of fit for the model used in the study.

Table 4.10: ANOVA results for Cash Management Practices and Financial Performance.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.174	1	.174	.210	.661[a]
	Residual	246.362	297	.830		
	Total	246.536	298			

a: Predictors: (Constant), Cash Management Practices

b: Dependent Variable: Financial Performance

Source: Research Data (2019).

ANOVA for the linear model shown in Table 4.12 for cash management practices and financial performance has an F - value = 0.21 which is not significant with a P value = 0.661 meaning that the cash management practices in private primary schools in Kisumu city was not significant in the prediction of financial performance. The study

therefore shows that there were no prudent financial management practices in private primary schools in Kisumu city.

4.7.2: Coefficients for Cash Management and Finanacial Performance

The Coefficients for cash management practices as a predictor of financial performance were computed to determine the degree and direction of association and its interpretations .

Table 4.11: Coefficients for Cash Management Practices and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1 (Constant)	1.614	.244		5.591	.000		
CMP	.233	.173	.019	.487	.599	1.000	1.000

a: Dependent Variable: Financial Performance

Source: Research Data (2019)

The equation is presented as follows:

Y = 1.614 + 0.233CMP: Where :

Y = Financial Performance

CMP is Cash Management Practices.

The regression equation shows that a unit change in cash management practices results in 0.233 unit change in financial performance

4.8 Inventory Management and Financial Performance.

The results for regression analysis with inventory management as a predictor of financial management are given in table 4.14.

Table 4.12:Model Summary for Inventory Management and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.455[a]	.118	.113	.79435	1.705

a. Predictors: (Constant), Inventory Management

b; Dependent Variable: Financial Performance

Source: Research Data (2019).

From table 4.14, the value of R squared was 0.118 which implies that inventory management explains 11.8% of the variance in financial performance in private primaye schools in Kisumu city.

4.8 Inventory Management and Financial Performance.

ANOVA for the linear model was performed to establish the best of fit for the model used in the study. Findings are presented is presented in Table 4.15 .

Table 4.13 Anova Results for Inventory Management and Financial Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.189	1	.192	.135	.287[a]
	Residual	251.593	47	.691		
	Total	251.782	48			

Source: Research Data (2019).

ANOVA for the linear model presented in Table 4.14 for inventory management and financial performance has an F - value = 0.135 which is not significant with a P value = 0.287 meaning that the inventory management in private primary schools in Kisumu city was not significant in the prediction of financial performance. The study therefore shows that there were no prudent inventory management practices in private primary schools in Kisumu city.

4.8.1: Coefficients for Inventory Management and Financial Performance

The Coefficients for inventory management a predictor of financial performance were computed to determine the degree and direction of association .

Table 4.14: Coefficients for Inventory Management and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1 (Constant)	1.597	.276		5.774	.000		
IMP	.094	.201	.022	.391	.582	1.000	1.000

A; Dependent Variable: Financial Performance

Source: Research Data (2019)

Y = 1.597 + 0.094CMP: Where :

Y = Financial Performance

IMP is Inventory Management Practices.

The regression equation shows that a unit change in inventpry management practices results in 0.094 unit change in financial performance.

4.9 Overal Regression Results for Working Capital Management Practices and Financial performance of Private Primary Schools.

The results of multiple regression where costructs of working capital management practices were used to predict financial perfomance of Private Primary schools in Kisumu city. This gives the combined effect of the independent variables on the dependent variable of the study.

Table 4.15:Model Summary: Working Capital Management Practices and Financial performance.

Model	R	R Square	Adjusted RSquare	Std. Error of the Estimate	Durbin-Watson
1	.849[a]	.775	.762	.82031	1.759

a. Predictors: (Constant), Accounts Receivable, Accounts payable, Cash management, inventory management

b. Dependent Variable: Financial Performance

Source: Research Data (2019).

From table 4.17 the value of R square was 0.775 implying that the combined influence of accounts receivable, accounts payable, cash management and inventory management

explains 77.5% variation in financial performance of pivate primary school in Kisumu city. The table shows the autocorrelation test results which test the residues from linear

regression as independent. The rule of the thumb is, the value of Durbin - Watson has to between 1.5 and 2.5 for there to be no autocorrelation.

4.9.1 Coefficients for WCM Practices and Financial Performance.

Table 4.18 shows Coefficients of WCM practices and financial performance of private primary schools in Kisumu city in a side by side comparison to reflect the variations in direction and degree of effect of the various independent variables on the dependent variable

Table 4.16: Coefficients: Working Capital Management Practices and Financial Performance.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.462	.408		3.581	.000		
	ARM	.423	.063	.377	6.678	.000	.829	1.207
	APM	.070	.068	.053	1.027	.000	.992	1.008
	CM	-.200	.066	-.170	-3.020	.103	.833	1.200
	IM	-.164	.062	-.157	-2.911	.059	.815	1.203

Source: Research Data (2019)

Analysis of the regression model coefficients shows there is a beta co-efficient of 0.423 for accounts receivable management with a p-value = 0.000 which is highly

significant within 95% confidence interval. Thus accounts receivable has a positive relationship with financial performance. Accounts payable had a beta coeicient of 0.70 with a p value = 0.000 implying that accounts payable significantly influenced financial performance. Cash management had a beta coefficient of -0.200 with a p value =0.103 which is not significant at with 95 % confidence interval. Inventory management had a beta coefficient of -0.164 with a p value = 0.059 which is not significant within 95% confidence interval.

The overall regression model then becomes

Y = 1.462 + 0.423AR+ 0.070 AP - 0.200CM ï 0.064IM

Where Y =Financial performance,

AR is accounts receivable

AP is accounts payable

CM is cash management

IM is inventory management

4.10 Discussion of Findings.

Due to the importance of working capital in business enterprise operations,its management can accrue benefits to the business to greater heights. However, management of working capital tends to fluctuate from business to business or industry to industry depending on the needs of the business and the aspirations of the shareholders. Findings of this study revealed a significant link amid working capital and financial performance of private primary schools in Kisumu city

In an educational sector where the business relies on subscription like revenues, low on capital intensive projects, the management of receivables is much easier as it calls for definite receivables over certain periods of time. The major sources of receivables in private primary schools is the tuition fees, thus, the challenge to the institution is how

it is able to tap into its revenue base regularly. Due to the nature of the business, private primary schools face fewer business risks with the exception of economic shocks which are contingent on all economic sectors.

The major important aspect of working capital management is how the schools manage their liquid assets. Tuition fees forms the majority of accounts and thus it is prone to business risk posed by the economic fluctuations. However, private primary schools can overcome such risk by instituting strategies that may increase capacity utilization. There is also need for a accounts receivable policy that will provide guidelines on how due accounts can translate into working capital. A number of account receivable practices are being used by private primary schools, thus the schools can be said to be applying acceptable standards in its management of working capital. This is due to the fact that this study relevaled a positive relationship between accounts receivable and overall financial performance of schools.

In the same extent, private primary schools in Kisumu city are also apart in their management of accounts payable which include a payment policy and disbursement patterns. The acceptance of such practices can aid the organization in efficient use of cash and by extension ensure good management of working capital. This is exemplified by the study having revaled a positive interconnection between accounts payable and financial performance of schools.

With regard to inventory management, the practices used by the learning institutions such as private primary schools are different from the one adopted by business firms, in that these organizations carry few inventory and thus their approache to the management of the inventory are different. Due to existence of the opportunity to carry essential inventory which are dependent on the immediate consumptions, private primary schools are thus able to gain from the management of inventory.

CHAPTER FIVE: SUMMARY,CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of predominant findings of the study, conclusions and recommendations on the impact of working capital management practices on financial performance of private primary schools in Kisumu city, Kenya and highlights important suggestions for further research.

The goal of the survey is to establish influence of working capital management practices on financial performance of private primary schools in Kisumu city, Kenya.

From this overall objective, the study aimed at determining the influence of debtors, accounts payable, cash management and stock management on financial performance of private primary schools in Kisumu city.

5.2 Summary of the Findings

The study reviewed secondary data obtained from financial records of private primary schools using a document analysis checklist. From the review of related literature, a conceptualization was done in reference to working capital management practices and financial performance of private primary schools. The hypothesized association was then tested,and was guided by the reseach objective.

The document analysis checklist was tested both for reliability using Cronbachôs alpha (Ŭ) and validity (using factor analysis for construct validity). The document analysis checklist was then used to collect seconday data or the study. Multiple regressions for a univariate analysis were conducted. The independent variables were tested for multi-collinearity using variance inflation factors or tolerance where Durbin ï Watson test was used to test for autocorrelation

5.2.1 Influence of Accounts Receivable on Financial Performance

Study findings reveal a significant rrelationship between Accounts receivable management and financial performance of private secondary schools in Kisumu City (r= 0.703; P< 0.05). The results for regression analysis with accounts receivable management as a preditor of financial management in private primary schools revealed an R squared value of 0.195 this show that accounts receivable management explains 19.5 % of variance in financial performance of private primary schools in Kisumu city. The Coefficients for accounts receivable management as a predictor of financial performance in private primary schools had a VIF value less than 10 implying no multicollinearity problem. Analysis of the regression model coefficients shows there is a beta co-efficient of 0.496 for accounts receivable management with a P value = 0.000..

5.2.2 Influence of Accounts Payable on Financial Performance

A statistically significant relationship was revealed between accounts payable management and financial performance of private primary schools in kisumu city (r= 0.674; P<0.05). Study data relating to accounts payable was subjected to regression analysis to predict performance of private primary schools and findings revealed an R squared value of 0.165 which showed that accounts payable explain 16.5% of variance in financial performance of private primary schools in Kisumu city. ANOVA for the linear model for accounts payable and financial performance of private primary schools had an F - value = 34.712 which is significant at 99% confidence level.The study therefore shows that accounts payable significantly influence financial performance of private primary schools in Kisumu city. Analysis of the regression model coefficients showed positive beta co-efficient of 0.323 for accounts payable

management as indicated by the co-efficient matrix. Therefore, accounts payable contribute significantly in explaining financial performance.

5.2.3 Influence of Cash Management on Financial Performance

Cash management practices had a significant relationship with financial performance of private primary schools in Kisumu city ($r= 0.509$; $P<0.05$). The results for regression analysis with cash management as a predictor of financial performance revealed an R squared value of 0.287 which implied that cash management practices explains 28.7 % of the variance in financial performance in private primaye schools in Kisumu city. The study therefore shows that there were no prudent financial management practices in private primary schools in Kisumu city. The regression equation shows that a unit change in cash management practices results in 0.233 unit change in financial performance when holding all other factors constant.

5.2.4 Influence of Inventory Management on Financial Performance

Pearson product moment correlation coefficient revealed that inventory management had a weak but positive relationship with profitability ($r= 0.245$;$P>0.05$). The results for regression analysis with inventory management as a predictor of financial performance revealed an R squared value of 0.118 which implied that inventory management explains 11.8% of the variance in financial management in private primaye schools in Kisumu city. The study therefore shows that there were no prudent inventory management practices in private primary schools in Kisumu city. From the regression coefficents, the study revealed that whe other factors are held constant, a unit change in inventory management practices resulted in a 0.094 unit change in financial performance.

5.3 Conclusions

Study findings reveal a significant rrelationship between Accounts receivable and financial performance of private secondary schools in Kisumu City. The results for regression analysis with accounts receivable management as a preditor of financial management in private primary schools revealed an R squared value that was statisticaly significant. Based on the study finding, a conclusion is made indicating considerable relationship between accounts receivable management and financial performance of private secondary schools in Kisumu City.

Study data relating to accounts payable was subjected to regression analysis and findings were significant in predicting financial performance of private primary schools in Kisumu city. With regard to findings of the study, it concluds by showin significant relationship between accounts payable management and financial performance of private primary schools in Kisumu City.

Findings of the study further reveaed a that cash management practices had a significant relationship with financial performance of private primary schools in kisumu city. The results for regression analysis with cash management as a predictor of financial management revealed an R squared value that was statistially significant. With respet to the study findings, it concludes by showing how cash management practices significantly influence financial performance of private primary schools in Kisumu City.Pearson product moment correlation coefficient revealed that inventory management had a weak but positive relationship with financial performance. The results for regression analysis with inventory management as a predictor of financial management revealed an R squared value that was significant. Based on the study finings, a conclusion is made that inventory management had a weak but positive relationship with financial performance in private primary schools in Kisumu City.

5.4 Recommendations

The study recommends that private primary schools should formulate a policy framework to inform the best practices in the management of working capital. For instance, these institutions hold large amounts of working capital in form of cash. These institutions should be able to invest the cash in instruments that generate higher returns comparably and stand the likelihood to gain from such investments.

The uniqueness of the revenue sources for private primary schools implies that these institutions have distinct working capital management practises which have potential risks to the sustainability of the institutions in the long run. Due to these, the study recommends that the institutions introduce new models of working capital management practises that would help mitigate the risk inherent in their revenue sources.

Training programmes should be put in place so that the staff are equipped with skills and techniques to be able to assist the management in managing this institutions.

The finance department should be able to come up with refresher programmes that helps in raising the level of awareness on the role of working capital management in this institutions. The overall sustainability of these institutions is pegged at the ability of the management to efficiently manage their revenue streams.

5.4.1 Policy Recommendations

Investors in private primary schools need to consider drafting financial management regulations for the sector in order to manage the variances in the admission of pupils. These regulations should inform the number of such schools that can be setup in specific localities so that institutions have a consistent and sufficient number of admissions per year. Having an open and unregulated number of institutions significantly reduces the admissions and thus reduce the amounts of revenue earned

by these schools leading to poor financial performance and unsustainability in the sector.

5.5 Limitations of the Study

The study was limited to the following number of issues that may influence results but which the researcher had no control over them; non reluctance by the management to avail their financial statements for analysis but provided information after being assured of the confidentiality as the data being collected was for research purpose only,some private primary schools have no clear records of their financial data hence a bit tricky to analyse their data.

5.6 Recommendations for Further Research

The study should incorporate other private institutions of learning so as to give comprehensive results of this institutions.

This study was limited by the reluctance by some private primary schools to avail financial data for analysis. In this regard,other data collection techniques should be incorporated so as to give the best comprehensive results. With an enhance response rate, the researchers may come up with more comprehsnive results.

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